ONLINE ARTICLE

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Southern Highlands dairy farmer Craig Whatman, of "Mayberry Farm", is nervously awaiting his new price contracts for the year ahead. He expects it will see a drop of at least a few cents a litre and a tier two milk price equivalent to about a third of what he was paid last year.

FARMERS are furious new season market milk contracts to supply supermarkets are being locked down low by processors just as international prices are showing signs of recovery.

Australian Dairy Farmers (ADF) president Chris Griffin said the collapse of branded milk sales and the aggressive retail discount price of $1 a litre had created extreme pricing pressure down the milk supply chain, with farmers paying the cost.

“The supermarkets argue they’re just servants to consumer demands for cheaper food and they’ve been forced to absorb the milk price discounts themselves,” he said.

“Strangely, the big retailers are still making big profits – it’s pretty obvious their suppliers are paying for their actions.”

Mr Griffin said the protracted price talks with Lion, declining market milk prices and farm profitability emphasised the need for a milk industry ombudsman – a position the UK industry had only recently established to help decide fair prices.

ADF was also working with the National Farmers Federation to draw up recommendations for a legislated code of conduct for the retail food supply chain.

Bega Cheese executive chairman Barry Irvin said while the signals suggested global milk prices would recover this financial year, the problem in eastern Australia was a lack of infrastructure to add value to milk surplus to the drinking market's needs.

"In hindsight it's easy to say we should have been spending money on value-adding facilities during those 10 years of drought, even though it was hard to justify when supplies were tight, but the industry is paying the price for letting its infrastructure base decline."

Even the Bega group, which is enjoying solid demand growth from its export markets, was unlikely to be in the market for additional milk in NSW or Victoria this year, although the company was poised to pick up Lion suppliers around Bodalla on the South Coast.

Strong performing agribusiness diversification has allowed the farmer-owned Lismore-based co-operative Norco to maintain farmgate prices which are now the envy of the rest of the State.

However, even Norco's bosses admit the average 52c/L base price it has just announced it will pay for the 2012/13 financial year is on the edge of being unsustainable for farmers.

The 162 farms from South East Queensland to the Hunter Valley supplying Norco also have the prospect of potential retrospective step-up payments, which in each of the two previous financial years has added up to $2 million over the supply base.

A reduced rate is paid for only a small volume of manufacturing milk during months of high production.

Norco's branded milk sales have continued to grow this year, a phenomenal result given the ground lost by other products to $1/L homebrands.

However, Norco chairman and Lismore district milk producer Greg McNamara said growth was not such that Norco could currently take on additional suppliers, despite the "many, many" farmers waiting in line, he said.

Mr McNamara said in the current environment where the season had been favourable and grain prices reasonable, a 52c/L base price was sustainable "but with any increase in costs, be it carbon tax influenced or as a result of US drought (on grain prices), it would be a fine line".

Lion did not return *The Land's* calls.